



## CONFLICTS IN THE UKRAINIAN ECONOMY

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## КОНФЛИКТИ В УКРАИНСКАТА ИКОНОМИКА

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**ABSTRACT:** *Ukraine still has an insufficient level of development of economic relations and is significantly behind the developed countries. Accordingly it cannot provide decent living for most of population, and to solve social problems. Realities of the economic and social development of Ukraine indicate insufficient stability of the national economy, its conflicts and propensity to unbalance. Dynamics of key macroeconomic indicators and indicators of social development are analyzed.*

*Conflicts in the economy arise from the contradictions between the parties when their interests do not coincide. The conflicts may be observed in any facets of economy, from production to distribution, consumption and exchange of resources (material, funding, human resource, technology, innovation, information etc.). These conflicts are related to market competition, to ties between enterprises and various governmental structures, conflicts within enterprises and organizations, too.*

*The most problematic factors for doing business in Ukraine are considered. These are problems in taxation, public policy, corruption, inefficiency of officials, inflation, etc. The essence and causes of the tax conflict are considered. The tax system is inefficient and it complicates the activity of enterprises. All variety of reasons for tax conflicts can be grouped as follows: fiscal direction of the tax system, high tax burden and lack of tax regulation of social stratification, inefficiency of the tax system in the regulation of investment and innovation processes, possibility of tax evasion, and inefficient use of tax revenues. Positive results of ongoing economic reforms in Ukraine are given. Ways of prevention of conflicts of interest in the field of taxation are proposed.*

**Key words:** conflicts, interests, Ukraine, economy, tax, tax system, doing business, tax conflict.

Changes that occurred at the end of the twentieth century in different facets of life led to global problems and many conflicts at international, national and regional levels. For young states, countries like Ukraine with economy in transition, problems of adoption to new realities are particularly acute [1].

Ukraine has long been a socialist republic within the USSR. It had appeared in 1991 as an independent state. Ukraine was initially viewed as a republic with favorable economic conditions in comparison to other regions of the Soviet Union. However, the country experienced deeper economic slowdown other former Soviet Republics. During the recession, Ukraine lost 60 percent of its GDP from 1991 to 1999, and suffered five-digit inflation rates.

It was due to the fact that possibilities of the Ukrainian economy were overestimated, its interdependence with the economies of other countries of the former Soviet Union was not taken into account. During long period the economic reform program had not been developed. Large, poorly controlled public sector

was maintained, centralized management of the economy hindered implementation of reforms.

Ukraine still has an insufficient level of development of economic relations and is significantly behind the developed countries. Accordingly, it cannot provide decent living for most of population, and to solve social problems. Realities of the economic and social development of Ukraine indicate insufficient stability of the national economy, its conflicts and propensity to unbalance [2].

According to the State Statistics Committee of Ukraine [3] for the period from January to November 2013 the GDP fell by 1.3% compared with the same period in 2012. The largest drop is observed in such sectors as processing industries and agriculture. At the same time, there is almost a zero value of the inflation rate. It indicates problems in the economy and tight monetary policy of the National Bank of Ukraine.

In 2013, the trade balance had deteriorated (foreign trade deficit amounted to -5.8 billion USD) and decrease of foreign direct investment in 2013 was about 50% compared with the same

period in 2012. It shows the deterioration of competitiveness of the economy.

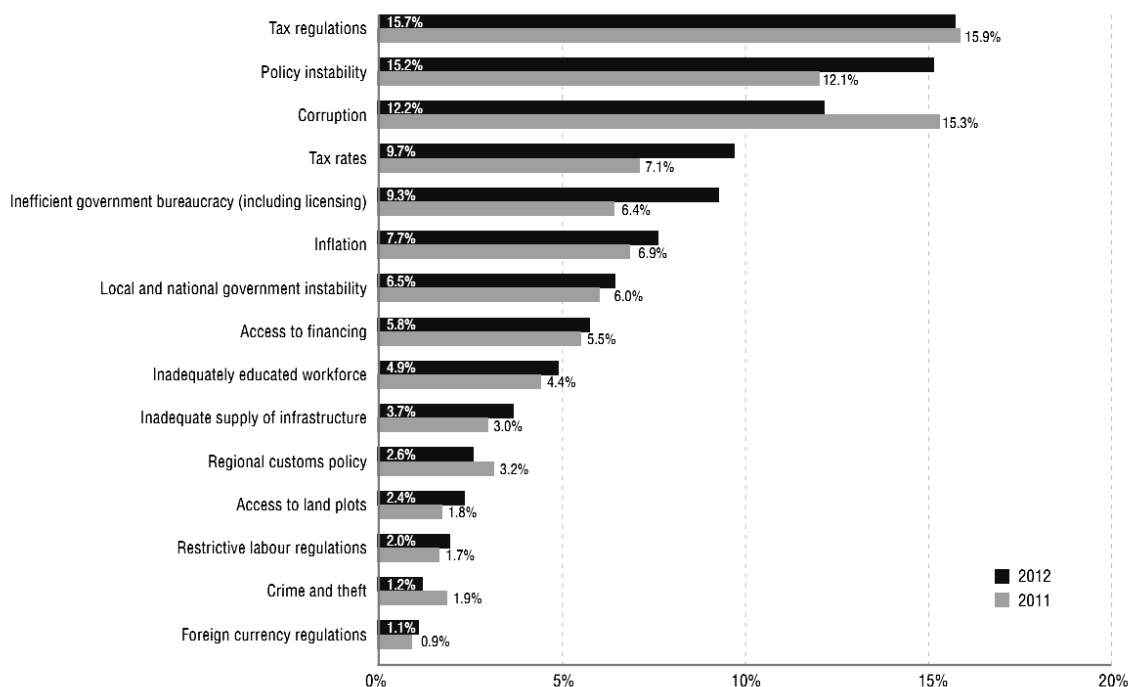
Dynamics of socio-economic development is related to the development of society as a whole and largely depends on the situation in the political and socio-humanitarian spheres.

Conflicts in the economy are arising from the contradictions between the parties when their interests do not coincide. The conflicts may be observed in any facets of economy, from production to distribution, consumption and exchange of resources. These conflicts are related to market competition, to ties between enterprises and various governmental structures, conflicts within enterprises and organizations, too.

The conflict of interests between business entities and authorities is evidenced by the fact that the Index of Economic Freedom 2013 of Ukraine

ranked 161st out of 177 countries, and it received 46.3 points out of 100 possible [4]. The index of economic freedom of Ukraine over the last 9 years has a negative trend. This indicator declined by nearly 10 points since 2006. The greatest decline was observed in parameter of financial freedom (from 66 place in 2008 to 130 in 2013). Indicators of fiscal freedom (93rd place), freedom from corruption (149 place), investment freedom (154th) have deteriorated significantly.

The most problematic factors for doing business in Ukraine are presented in Fig. 1 [5]. Apart from the problems in the tax field by the existence of Ukrainian business is complicated by factors such as instability of public policy, corruption, inefficiency of officials, inflation, etc. All these factors give rise to conflicts and low socio-economic development of the country.



**Fig. 1.** Most problematic factors for doing business – 2012 vs 2011 [5]

According to the results 2012, Ukraine is one of the most corrupt countries in the world. In its annual ranking, conducted by an international public organization Transparency International, Ukraine ranked 144th in the list of 176 countries. On this slide we compare corruption in Ukraine with countries of Communitive Independent States. Accurate data on how much the state loses budget revenues due to corruption in the tax area does not; roughly this amount exceeds 70 billion USD.

Corruption is present in all spheres of life, ranging from hiring, to distribution of budget funds. That government spending is a huge

source of income for senior officials. In addition, there are many other options for enrichment. For example, tax credits, sale of raw materials at significantly reduced prices, extraction of natural resources, the sale of state property, the provision of a monopoly on specific activity, appointment to important positions in government and more. As you can see, the variety of forms of corruption can surprise anyone. In addition to problems in the economic environment, there are many social problems in Ukraine. According to the Institute of Demography and Social Studies of NAS of Ukraine 24% of the population does

not reach the national average living standards, while 16% live in poverty.

In this case we are talking about national standards. In comparison with the European standards of poverty, about 80% of the population of Ukraine belongs to this category. A characteristic feature is that below the poverty line are people who are employed, but have incomes that are insufficient to satisfy even elementary needs [2].

Revenues of majority of Ukrainians are at subsistence level and below, despite the fact that according to official statistics, the average monthly nominal wage in 2013 was 3268 UAH (about \$ 400 U.S.). This is due to the fact most people get minimal salaries, while officials of the state apparatus have incomes, ten times higher, than the salary of ordinary Ukrainians. For example, the salary of the Minister of Foreign Affairs of Ukraine is 4607 dollars per month [6]. While the teacher's salary is \$ 250. There were long delays in the payment of wages, social benefits, pensions and scholarships in the autumn of 2013.

Medical care is in difficult situation, life expectancy is declining, birth rate is low and population of the country is rapidly decreasing. Over the years of independence significant deterioration of the demographic situation is observed. Population of Ukraine on 1 November 2013 was 45.5 million people, while the 10 years ago the figure was 52 million.

So, the current state of Ukraine is characterized by a low level of socio-economic development. Political uncertainty has become the main reason for a protracted "strategic pause", which

is associated with failures of the executive and legislative branches to make strategic decisions needed for effective reforming of economy [1]. Key strategic political unsolved issues, subordination of economic policy to the decision of tactical political problems, regular practice of decision-making under political influence rather than economic realities, have led to recent controversies of the socio-economic development in Ukraine.

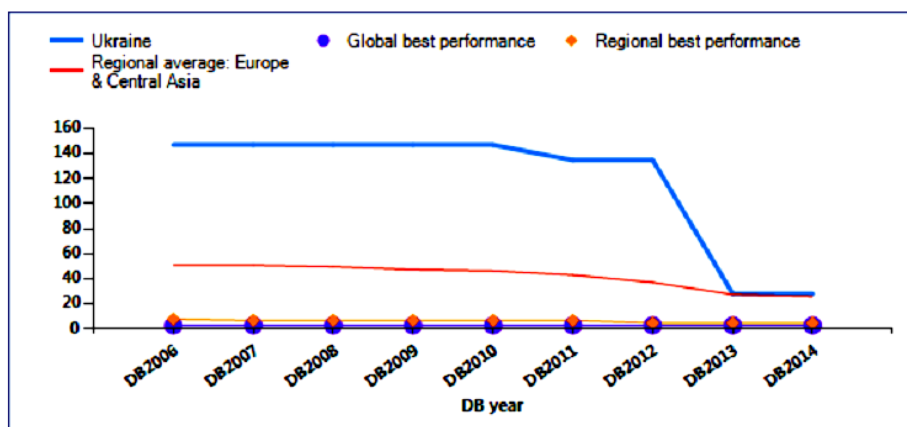
The question of conflict of interest in the tax system is one of the most pressing issues facing the state. Insufficient level of efficiency of the tax system in Ukraine due to the existence of the problem of conflict of interest between the taxpayer and the supervisory authorities contributes greatly and negatively on the state of socio-economic development of society as a whole. Unresolved conflict of interest complicates the activity of controlling bodies and promotes the growth of the shadow economy.

All variety of reasons for tax conflicts can be grouped as follows:

- fiscal direction of the tax system,
- high tax burden and lack of tax regulation of social stratification,
- inefficiency of the tax system in the regulation of investment and innovation processes,
- possibility of tax evasion, and
- inefficient use of tax revenues.

According to the World Bank, an average Ukrainian company pays 28 kinds of taxes through the year (Fig.2).

**Payments (number per year)**



**Fig. 2.** Has paying taxes become easier over time? [7]

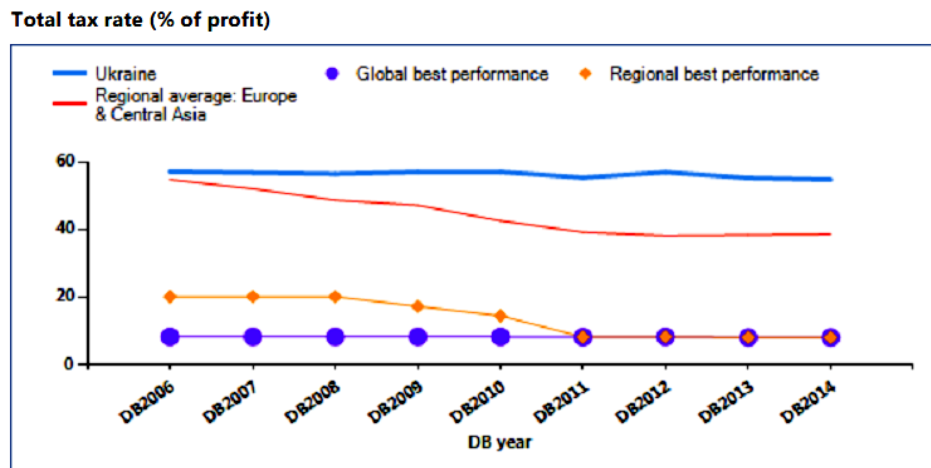
It is the largest number in the world. In 2013, the owners gave to the treasury 54.9% of revenue, of which 43.1% were taxes on labour, while

in Europe and Central Asia these figures are 38.7% and 22.6%, respectively [7].

Taxes for the majority of Ukrainian companies are exorbitant (Fig. 3). As a result companies are becoming tax debtors with subsequent threat of arrest of their property and the loss ownership rights. To engage in private business under such conditions is risky.

Business leaders in the industrial regions with developed engineering on the east and south

of the country (Dnipropetrovsk, Kharkiv, Luhansk, Mykolaiv regions), in some of the western border regions with a high share of small and medium business (Ivano-Frankivsk, Volyn, Chernivtsi region) and in such cities as Kiev and Sevastopol consider that tax policy is the most burdensome.



**Fig. 3.** Tax rate in Ukraine [7]

It's not surprising that number of tax disputes in the administrative courts of Ukraine is growing. Budget forming taxes such as income tax and VAT are the main objects of controversy. Subject of tax disputes are transactions in which fictitious business entities are either contractors of taxpayers, or they are included as intermediaries in the chain of movement of goods from the manufacturer or importer to the taxpayer [8].

The disputes about collecting of the tax debt by tax authorities are quite common. Taxpayer often learns about the existence of debt only according to the results of tax audit. That is inherently honest taxpayer, by virtue of their lack of awareness of the intricacies of tax law and accounting, gets into trouble, unwittingly and without suspecting the existence of problems [8].

In spite of existing problems, there are positive trends in the development of the Ukrainian economy. You see some of its. According to the rating of the World Bank Doing business-2014 [8] Ukraine had improved its position by 28 points – up to 112 from 140. The highest score was obtained in terms of reforms in the country, aimed at improving and simplifying of doing business, including small and medium-sized businesses.

However, taxation changes were minor. Ukraine's position has improved by only 4 points compared to last year. The analysts pointed to efficiency of use in Ukraine risk-based methods

for conducting inspections of economic regulatory agencies, the openness of Ukrainian banks and industry in the part the publication of information that is necessary for investors. Positive results of enforcement of the new Customs Code and changes in bankruptcy law have also been noted.

Among other issues in taxation, experts noted simplification and consistent reduction in the time of tax returns. “Ukraine has simplified reporting for corporate income tax, VAT and social security contributions. In 2012, due to this the time to file reports reduced in accordance with Ukrainian tax legislation by 101 hours - from 491 to 390 hours”, – experts of the World Bank state [9]. Also, there is simplification of tax in Ukraine due to the further improvement of the system of electronic document management. In addition, simplification of procedures for obtaining the certificate of VAT payer ensured improving the position of Ukraine by “Registering Property”.

## Conclusion

Therefore, despite high level of conflict in the national tax system, there are positive changes that could provide constructive solution of tax conflicts. Harmonious tax system should be based on principles of justice both vertically and

horizontally, efficiency, flexibility, economic neutrality, simplicity and controllability.

It is necessary to find solutions that would stimulate and improve profitability of taxpayers. While creating a tax system, it is important to quote Adam Smith: “A state will gain more by reducing tax burden than by turning to excessive taxes”.

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